Indexed UL with and Exit Strategy

The shifting landscape of economic conditions continually influences the appeal of permanent life insurance products. While newly issued policies can adapt to prevailing market dynamics, in-force policies often face the challenge of underperformance relative to initial sales illustrations. This reality places financial advisors in the difficult position of managing client expectations and navigating potential solutions. However, a well-structured policy can offer built-in flexibility, mitigating the need for reactive course corrections.

The Challenge of Performance Variability

Advisors familiar with permanent life insurance products understand the inherent volatility of projected versus actual performance. The historical trend of declining dividend rates in Whole Life (WL), market dependent returns in Variable Universal Life (VUL), and fluctuating cap and participation rates in Indexed Universal Life (IUL) all illustrate this challenge. These factors do not necessarily render any of these products unsuitable but do underscore the importance of flexibility in adapting to evolving market conditions.

One potential answer? A strategic approach within the VUL space that incorporates elements of downside protection traditionally associated with IUL.

The Evolution of Market-Linked Life Insurance Strategies

The rise of downside-protected products offering market-based returns has gained traction due to their appeal to loss-averse clients. While IUL has traditionally filled this niche, its reliance on cap and participation rates makes it vulnerable to declining performance in extended low-rate environments. Policyholders dissatisfied with these limitations often face two choices: maintaining their current policy or transitioning to a new product. However, this presents obstacles such as insurability and surrender charges, making a seamless transition an ideal alternative.

A Built-in Solution: The Flexibility of Indexed Subaccounts in VUL

Fortunately, many modern VUL policies incorporate indexed subaccounts, blending the core advantages of IUL with VUL's inherent flexibility. Additionally, buffered strategies, widely adopted in the variable annuity space, have now been introduced in VUL products, offering clients a spectrum of downside protection options while maintaining upside potential.

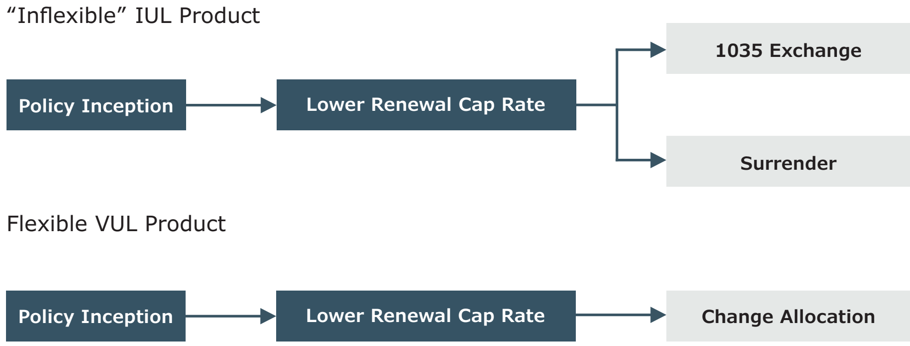
Clients holding a VUL with indexed subaccounts or buffered strategies are positioned favorably. Should cap rates decline to the point where returns become unattractive, policyholders can reallocate funds within their existing policy. Unlike IUL, which is constrained by the renewal terms set by the insurer, VUL allows adjustments to subaccount allocations, offering adaptability without requiring new underwriting or surrendering the policy.

Protection Allocation Strategies for Changing Market Conditions

Financial advisors can guide clients through reallocations tailored to their evolving risk tolerances and return objectives. If a client seeks greater upside potential, shifting to a more aggressive market-based subaccount may be appropriate. Conversely, if predictability is the priority, reallocating to a fixed account or a bond-focused subaccount could provide stability. Crucially, this decision is not binary—clients can diversify their policy allocations across multiple subaccounts to optimize their portfolio's risk-reward balance.

See Figure 1, on the next page, for additional details on the difference between an IUL and VUL in these circumstances.

Figure 1: Strategies for a Falling Cap Rate



Positioning Clients for Long-Term Success

Rather than attempting to predict the best-performing life insurance product at any given moment, financial advisors should emphasize flexibility. The product that is most favorable today may not hold that position in a few years due to economic shifts. VUL with indexed subaccounts and buffered strategies provides an inherent exit strategy, allowing clients to adapt without policy replacement or additional underwriting hurdles.

By leveraging VUL’s built-in flexibility, advisors can equip clients with a more resilient insurance solution, ensuring that their financial strategy remains effective despite market fluctuations.

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